Granger ENERGY CORP.

Annual

Report

1994

Annual General Meeting

Shareholders and other persons interested in receiving information on Granger's progress are invited to attend the Company's first Annual Meeting to be held on Monday, May 15, 1995 at 2:30 p.m. in the Viking Room at the Calgary Petroleum Club, located at 319 - 5 Avenue S.W., Calgary, Alberta.

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Abbreviations

bbl	- barrel	mcf	- thousands of cubic feet
mbbls	- thousands of barrels	mmcf	- millions of cubic feet
bbls/d	- barrels per day	mcf/d	- thousands of cubic feet per day
bopd	- barrels of oil per day	mmcf/d	- millions of cubic feet per day
BOE	- barrel of oil equivalent (1 bbl = 10 mcf)	NGLs	- Natural gas liquids
		WTI	- West Texas Intermediate
BOEPD	- barrels of oil equivalent per day	ARTC	- Alberta Royalty Tax Credit

Map Legend

- Granger Land
- Horizontal Location
- Horizontal Oil Well
- Location
- Oil
- Gas
- Abandoned
- Gas Pipeline

Granger is a public energy company committed to creating superior share value growth by producing and marketing hydrocarbons.

Operations began in March 1994 upon the closing of a $4,000,000 initial public offering and the acquisition of production and development properties for approximately $1,080,000 plus shares. Development on acquired and in-house generated projects commenced shortly thereafter, many operated by Granger.

During the nine months of fiscal 1994, Granger produced an average of 210 barrels of oil equivalent per day, generated positive cash flow of $340,000 and posted a profit of $63,000. Production during November 1994 was 300 barrels of oil equivalent per day.

Granger's strategy for 1995 is to explore for and develop light/medium gravity crude oil reserves in southeast Saskatchewan, with particular focus on the use of horizontal drilling technology. Corporate growth is also sought through mergers with companies sharing Granger's strategies and business focus.

Granger's Class A shares and warrants trade on the Alberta Stock Exchange under the symbols GAS.A and GAS.WT.A respectively.

Highlights

Year ended November 30, 1994

Operating		
Production		
Oil and NGLs (bbls/d)		
Average		130
Exit		155
Natural gas (mcf/d)		
Average		806
Exit		1,450
Average price		
Oil and NGLs (per bbl)	$	18.20
Natural gas (per mcf)	$	1.83
Proven and probable reserves		
Oil and NGLs (mbbls)		505
Natural gas (mmcf)		7,073
Barrels of oil equivalent (mbbls)		1,212
Undeveloped land (net acres)		17,310
Financial		
Net production revenue	$	1,137,000
Cash flow	$	340,000
Per share	$	0.18
Net earnings	$	63,000
Per share	$	0.03
Capital expenditures	$	2,972,000
Average acquisition/on-stream cost per BOE	$	3.25
Debt	$	—
Net asset value	$	6,167,000
Per share	$	2.57
Class A shares outstanding		
Weighted average		1,901,881
Basic		2,400,000
Class B shares outstanding		3,712,000

1994 was Granger's first year of operations and we are able to report operational and financial success. The dedication of our staff and enthusiastic support from our Board of Directors is appreciated, and we thank them for their commitment in building a solid corporate foundation for future growth.

Achievements

- Completed an over-subscribed $4,000,000 initial public offering in March 1994;
- Drilled 7 (2.9 net) new wells, including 2 horizontals, for a net success rate of 86%;
- Virtually doubled production in nine months, from 160 BOEPD acquired at start-up to 300 BOEPD year-end rate;
- Generated cash flow of $340,000 ($0.18 per share) in the first year of operation;
- Acquired a natural gas gathering/compression system at Atlee-Buffalo, Alberta, to service Granger's 10,000 net acres of undeveloped natural gas lands;
- Assembled a 100% interest and seismically defined 2,400 acres of prospective light oil exploration lands at Froude, Saskatchewan, for 1995 drilling;
- Organized a successful 3-well (1.0 net) drilling program completed after year-end which increased oil production by 100 bbls/d.

$4,000,000 Initial Public Offering

Granger's initial public share offering was fully subscribed in March 1994, raising $4,000,000 in $1,000 units to finance the Company's acquisition and development programs. A total of 2,400,000 Class A shares were issued (including 180,000 issued to Jordan Petroleum Ltd. for the acquisition of oil and gas properties), together with 200,000 Class A share purchase warrants exercisable at $1.25 per share for two years. Both are traded on the Alberta Stock Exchange.

3,712,000 Class B Non-Voting flow-through shares were also included in the original units issued to the public. These shares are unlisted, and convertible into Class A shares between February 27, 1997 and February 28, 1999 at a ratio to be determined by the then market value of the Class A shares.

Major Acquisition of Land and Reserves

Following completion of the initial public offering in March 1994, Granger acquired a package of producing and development properties for $1,044,000 cash plus issuance of 180,000 Class A shares at $0.20 per share. The effective date was December 1, 1993.

Independent petroleum engineers had assigned proved plus probable reserves of 368,000 barrels of oil and 4.9 billion cubic feet of natural gas to the purchase, with a risked pre-tax value of $3,500,000 using escalating prices and a 15% discount rate. Production at closing in March 1994 was approximately 100 bopd and 600 mcf/d of gas.

The acquisition also included 7,200 net acres of undeveloped land independently valued at $280,000, the majority located at Granger's natural gas project area near Atlee-Buffalo, Alberta.

Operations Review

Average production for the fiscal year ended November 30, 1994 was 210 BOEPD, consisting of 130 bbls/d of oil and NGLs and 806 mcf/d of natural gas. Granger started operations with production of 160 BOEPD and exited the fiscal year with 300 BOEPD. This was achieved by the tie-in of shut-in gas wells, workovers and reactivating shut-in wells at Connorsville and Alderson in Alberta, and Kingsford and Leitchville in Saskatchewan. Production also increased through the acquisition of additional interests in owned and operated properties at Atlee-Buffalo and Connorsville in Alberta, and at Kingsford and Storthoaks in southeast Saskatchewan.

During 1994 Granger also participated in the drilling of 7 wells (2.9 net). Four were oil wells (1.5 net) and one was a gas well (0.4 net) for an average success rate of 86%. The Company intends to concentrate its drilling efforts on southeast Saskatchewan oil prospects during 1995, with particular emphasis on the Froude and Handsworth projects.

In 1995 average production is expected to be 255 bbls/d of oil and 1,200 mcf/d of natural gas, a 92% and 49% increase over 1994 respectively.

Financial Review

For the fiscal year ended November 30, 1994, cash flow from operations was $339,800 ($0.18 per share) and net income was $63,300 ($0.03 per share) on net revenues of $1,272,780. This performance was primarily achieved by increasing production from 160 BOEPD (63% oil; 37% natural gas) in March 1994 to 300 BOEPD (52% oil; 48% natural gas) at fiscal year-end. The average prices received for crude oil and natural gas production were $18.20 per barrel and $1.83 per mcf respectively.

In 1995 Granger's financial performance will improve as a result of increased volumes in crude oil and natural gas production, with higher crude oil prices expected to offset lower natural gas prices. The sale of mature, high operating cost properties and new production is expected to reduce average operating costs by $2.00 per BOE.

Capital expenditures totalled $2,972,000 in fiscal 1994. The major part of that capital was expended on drilling ($1,344,000 - 45%), followed by land and property acquisitions ($774,000 - 26%) and plant and facilities ($689,000 - 23%). Investment in natural gas properties will be minimal until product prices improve.

Granger has no bank debt. Based on current cash flow and capital investment estimates, the Company's bank debt at year-end 1995 will be $850,000, well within our guideline of 1.25 times forward annual cash flow.

1995 Objectives

Our objectives in 1995 are twofold:

Double cash flow per share

and

Enhance the net asset value per share of Granger

Doubling cash flow to $0.35 per share will be accomplished through:

- Increasing production to average at least 375 BOEPD;
- Optimizing production from light/medium crude oil reserves;
- Managing commodity price, currency and interest rate risk by hedging up to 50% of production;
- Reducing operating costs by $2.00 per BOE by selling $250,000 of high cost, mature production interests;
- Targeting a minimum 20% working interest in new investments and controlling costs by operating production;

Enhancing the net asset value per share of Granger will be achieved by:

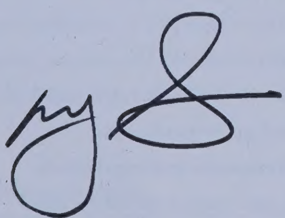
- Acquiring/finding reserves at a two-year average on-stream cost of $5.00 per BOE;
- Enhancing in-house expertise in evolving horizontal technologies to maximize reserve exploitation efficiency;
- Expanding Granger's reserves and land base as a foundation for future production growth.

Corporate Outlook

Commodity prices and drilling results will be important factors influencing Granger's financial success in 1995. The oil price averaged C$23.75 per barrel for light sweet crude at Edmonton during the first quarter of 1995, buoyed by a low Canadian dollar, and we expect this benchmark price to average C$23.50 per barrel for the year. Hedging contracts for up to 50% of the Company's oil production may be utilized to support prices near this level. Attractive oil prices, however, will be partially offset by weak natural gas prices which are forecast to average $1.40 per mcf for the Company's production in 1995. We have therefore curtailed new investment in gas projects, which will result in a modest decline in gas production over the year. As Granger's production is weighted 70% towards oil, the overall effect is a positive price outlook for the Company.

Following plans and investments undertaken during 1994, Granger expects to participate in the development of several high quality oil projects in 1995 with the drilling of at least 10 oil wells, five of which will be horizontal. With interests ranging from 19% to 45% in each well, we are confident that a reasonable measure of success in this low/moderate risk program will have a dramatic impact toward realization of our corporate goals. We look forward to our first full year of operations with commitment and confidence.

On behalf of the Board of Directors,



Murray D. Sears
President

March 29, 1995

Granger's acquisition of properties shortly after the closing of public subscriptions resulted in an initial production rate of 100 bopd and 600 mcf/d of natural gas. During fiscal 1994 projects carried out to enhance this base included the tie-in of shut-in gas wells, workovers and reactivation of shut-in wells, and purchases and dispositions of property interests.

The Company tied in four shut-in gas wells at Connorsville in south-central Alberta and completed and tied in a capped gas well at Mundare in central Alberta, resulting in new production of 820 mcf/d from 770 mmcf of previously non-producing gas reserves. Incremental cost was $360,000.

Reactivation and workovers on two oil wells in the Alderson area of Alberta and on oil wells located at Kingsford and Leitchville in Saskatchewan resulted in incremental oil reserves of 21.4 mbbls and additional production of 15 bbls/d at a cost of $75,000.

Production and administrative efficiency was also enhanced by purchasing and trading property interests while disposing of minor interests with high operating costs. Granger consolidated properties in its core gas areas at Atlee-Buffalo and Connorsville in Alberta and in its operated oil areas at Kingsford and Storthoaks in southeast Saskatchewan. Total expenditure was $162,000 for 31.1 mbbls of oil and 443.7 mmcf of natural gas independently valued at $335,000. Dispositions included interests in a sour gas unit and plant at Mazeppa, a shut-in gas well at Scollard in Alberta, and non-operated wells in southeast Saskatchewan.

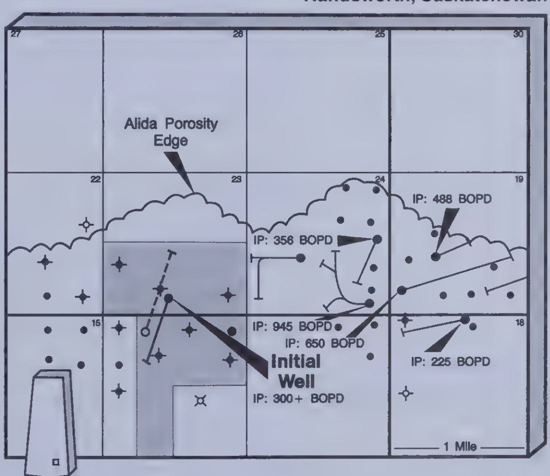
At year-end the Company's production had increased to 155 bbls/d of oil and 1,450 mcf/d of natural gas. In addition to the ongoing review of shut-in natural gas properties for production tie-in, Granger intends to conduct a program of divestments and acquisitions during 1995 to further consolidate its interests in specific areas and reduce operating and overhead expenses.

Southeast Saskatchewan

Handsworth

Granger originated a farmin on 640 acres of land in the Handsworth area having potential for Alida zone horizontal exploitation. The lands offset several successful horizontal oil wells located on an adjacent section which have produced at initial rates ranging from 350 to 945 bbls/d. The Company committed to a 27% working interest on two wells to earn 18.9% after payout of drilling costs. The first well was drilled subsequent to year-end and placed on production at an initial rate exceeding 300 bopd. The second of several potential follow-up wells is scheduled for June 1995, after completion of a 3-D seismic evaluation program.

Handsworth, Saskatchewan



Huntoon

Granger farmed in on 240 acres of land in the Huntoon area in southeast Saskatchewan and operated the drilling of a Midale zone oil well during October 1994 at a 45% working interest to earn 31.5% after payout of drilling costs. The well is located between a Frobisher Halbrite zone well which has produced 160,000 barrels of oil and a Midale Marly zone well which has produced 90,000 barrels of oil to date. Initial production of the Granger-operated well was 44 bopd, and two additional potential dual zone locations will be seismically evaluated during 1995.

Drilling Activity

1994	Exploratory		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil wells	—	—	4.0	1.5	4.0	1.5
Gas wells	1.0	1.0	—	—	1.0	1.0
Dry	1.0	0.2	1.0	0.2	2.0	0.4
Total wells	2.0	1.2	5.0	1.7	7.0	2.9
Success rate (%)	50.0	83.3	80.0	88.2	71.4	86.2

Froude

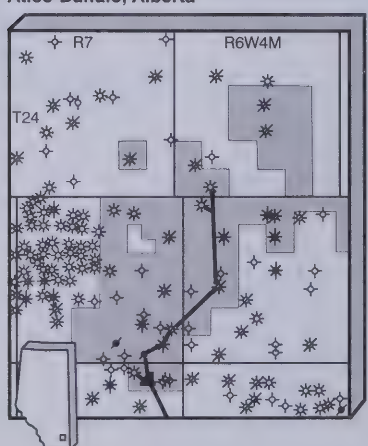
During 1994 Granger accumulated a 100% interest in 2,080 acres of undeveloped land and mapped over 18 miles of seismic data in the Froude area in southeast Saskatchewan. Through this seismic analysis, three prospective oil reservoirs with characteristics similar to the nearby North Griffin Pool were identified. This similar pool has produced over 800,000 barrels of oil to date and economic production is ongoing. Granger's strategy in exploiting this opportunity is to minimize risk to capital by farming out the first two test wells to others while retaining the option to participate in subsequent development. After year-end, agreement was reached with an industry partner to drill two exploration wells by July 1995 at no cost to the Company.

Central Alberta

Atlee-Buffalo

Atlee-Buffalo is a core natural gas development project for Granger. The Company has over 10,000 net acres of undeveloped land in the area which are prospective for natural gas reserves in three zones, and owns a 75% working interest in 10 miles of gathering system and a compressor station with capacity of 1,500 mcf/d. Granger's present production rate is 200 mcf/d and a program to exploit its extensive land holdings and under-utilized facilities is planned when gas prices permit economic development.

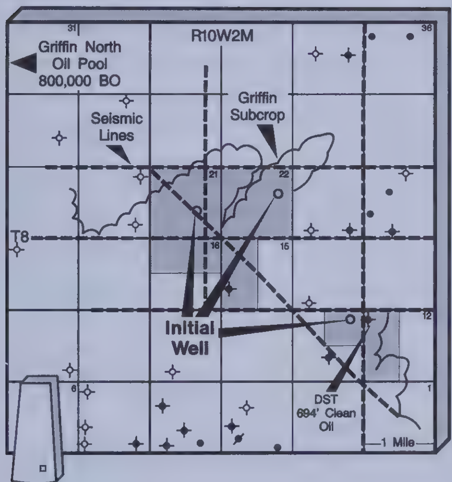
Atlee-Buffalo, Alberta



Connorsville

During 1994 the Company tied in four gas wells in the Connorsville area with reserves of 676 mmcf, for a net increase in production of 750 mcf/d. During 1995 Granger plans to tie in an additional well to maintain production. Total proven reserves assigned to the the Connorsville area are 754 mmcf.

Froude, Saskatchewan



Hercules

Granger farmed in on 640 acres in the Hercules area and drilled a well with potential in the Ostracod and Viking zones. Completion of the Ostracod was unsuccessful but the Viking zone was productive with an anticipated production rate of 250 to 500 mcf/d. Independent petroleum engineers assigned proven non-producing gas reserves of 500 mmcf to the Company's 100% working interest in the well which is located approximately 1.5 miles from a regional pipeline.

After year-end, the Company acquired a further 1,440 acres of adjacent undeveloped land on which two potential drilling locations were identified. Granger's strategy is to farm out a portion of the Company's interest on the follow-up lands to manage risk to capital and optimize investment returns when gas prices permit economic development.

Major Properties

The following table is representative of Granger's average daily production and total proven reserves attributable to its principle producing properties at November 30, 1994:

November 30, 1994	Production		Proven Reserves		Present Value discounted
	Gas (mcf/d)	Oil (bbls/d)	Gas (mmcf)	Oil (mbbls)	at 15% ($000's)
Alberta					
Connorsville	800	—	754	—	406.8
Atlee-Buffalo	150	—	595	—	277.9
Carrot Creek	25	3	361	13	222.3
Alderson	—	9	—	22	156.4
Leduc	60	1	165	1	128.1
Meekwap	5	12	4	13	120.2
	1,040	25	1,879	49	1,311.7
Saskatchewan					
Kingsford	—	21	—	61	336.1
Rapdan	—	10	—	46	276.2
Storthoaks	—	7	43	72	177.8
Huntoon	—	10	—	21	119.0
	—	48	43	200	909.1
Other Properties	410	82	3,381	137	1,740.2
	1,450	155	5,303	386	3,961.0

Reserve Volumes

November 30, 1994	Gross Reserves		Net Reserves	
	Oil (mbbls)	Gas (mmcf)	Oil (mbbls)	Gas (mmcf)
Proved producing	367	1,696	316	1,366
Proved non-producing	19	3,607	12	2,801
Total proved	386	5,303	328	4,167
Probable additional	119	1,770	96	1,450
Total proved and probable	505	7,073	424	5,617

Reserves Value

November 30, 1994		Discounted at			Percent of
	Undiscounted	10%	15%	20%	15% Value
Proved producing	6,663	3,406	2,813	2,416	57
Proved non-producing	3,164	1,558	1,148	866	23
Total proved	9,827	4,964	3,961	3,282	80
Probable	1,809	839	629	488	13
ARTC	577	403	351	312	7
Total proved and probable plus ARTC	12,213	6,206	4,941	4,082	100

Granger's oil and gas reserves were evaluated by the independent engineering firm of Paddock Lindstrom & Associates Ltd. with an effective date of November 30, 1994. Values shown are calculated on a before tax basis and include the Alberta Royalty Tax Credit (ARTC). Probable reserve values are risked at 50%. Gross reserves are the Company's reserves before deduction of royalties.

Pricing Assumptions

	WTI at Cushing Oklahoma ($US/bbl)	Light Oil at Edmonton ($Cdn/bbl)	Alberta Gas Price ($/mcf)
1994	18.00	23.53	1.66
1995	18.00	23.53	1.68
1996	19.00	24.87	1.88
1997	20.00	26.21	2.06
1998	21.50	28.23	2.27
1999	23.00	30.06	2.41
2000	24.50	32.29	2.48

Note: In converting the price of West Texas Intermediate (WTI) oil from United States to Canadian currency, an exchange rate of U.S. $0.725 per Cdn. dollar was used. The Alberta gas price represents the average of all system and direct (spot and firm) sale. Prices are escalated at 3.5% per year after 2000.

Reserves Reconciliation

	Oil and NGLs (mbbls)			Gas (mmcf)		
	Proved	Probable	Total	Proved	Probable	Total
Acquisitions	332	67	399	5,006	869	5,875
Revisions	53	(3)	50	293	70	363
Additions	66	55	121	675	831	1,506
Dispositions	(18)	—	(18)	(377)	—	(377)
Production	(47)	—	(47)	(294)	—	(294)
November 30, 1994	386	119	505	5,303	1,770	7,073
% Change	16	78	27	6	104	20

Reserve Life Index*

	Proved	Proved and Probable
Oil	6.8 years	8.9 years
Gas	10.0 years	13.4 years
Oil equivalent	8.4 years	11.1 years

* Based on average November 1994 production rate of 155 bopd and 1,450 mcf/d of natural gas, or a total of 300 BOEPD.

Undeveloped Land Holdings

November 30, 1994 *(Acres)*	Gross	Net
Alberta	25,848	14,171
Saskatchewan	4,732	3,139
Total	30,580	17,310
Value per net acre		$37.55

Net Asset Value

November 30, 1994

(000's except per share amounts)	
Proved plus half probable reserves*	$ 4,941
Undeveloped land	650
Working capital and other assets	567
Net asset value	$ 6,158
Class A shares	
Basic	2,400
Fully diluted**	2,840
Net asset value per share	
Basic	$ 2.57
Fully diluted**	$ 1.93

* Discounted at 15% per annum per Paddock Lindstrom & Associates Ltd. report effective November 30, 1994.

** Assumes that 3,712,000 Class B shares outstanding will convert into Class A shares at February 1999 at an assumed market price of $3.16 per share, equivalent to a discount of 25% p.a. on the nominal value of the Class B shares to maturity. The actual future conversion price may differ materially.

The fiscal year ended November 30, 1994 was Granger's first year of operation and we are pleased to report the tangible results of our efforts, summarized below:

- Gross revenues of $1,398,400;
- Cash Flow from operations of $340,000 or $0.18 per share;
- Net Earnings of $63,000 or $0.03 per share;
- Fully diluted net asset value per share of $1.93.

Revenues

Gross revenue was $1,398,400 for the fiscal year ended November 30, 1994. The crude oil and NGLs component was 61.7% of total revenues from production of 130 bbls/d and an average price of $18.20 per barrel. Natural gas production represented the balance of revenues with sales of 806 mcf/d and an average price of $1.83 per mcf.

Oil and NGLs average sales of $18.20 per barrel represents a discount of $3.20 per barrel from the C$21.40 per barrel average benchmark price posting at Edmonton during the production period. The Company expects the price received for its crude oil production to increase relative to the benchmark price during 1995 because of higher refinery demand for all grades of crude and therefore shrinkage of historical discounts.

Granger's oil production is primarily sourced from southeast Saskatchewan and is mainly light/medium gravity.

1994 Production Revenue Contribution

	$000's	%
Oil and NGLs	862,000	61.7
Natural gas	536,000	38.3
	1,398,000	100.0

Royalties

Royalties paid to third parties from Granger production interests include the Crown, freehold owners of mineral rights, gross overriding royalties, Saskatchewan Freehold Production Tax and Alberta Freehold Mineral Tax.

Total royalties and production taxes paid in 1994 were $267,156 or 19.1% (14.7% net of ARTC) of gross production revenues. These burdens are expected to increase to 23% in 1995 because of higher royalties payable on new production and will decrease on future payout of earning wells.

Operating Expenses

Total net operating expenses paid in 1994 were $621,636, equivalent to $8.07 per BOE produced. This reflects the higher operating costs associated with the major property acquisition, and higher start-up costs from new wells.

Average operating costs are expected to decline by $2.00 per BOE in 1995 because of the planned sale of mature, high operating cost properties and the averaging effect of new, lower cost production.

Netbacks

1994	$/BOE	%
Production sales	18.15	100.0
Royalties	(3.47)	(19.1)
Operating expense	(8.07)	(44.5)
Operating netback	6.61	36.4
General and administrative	(3.83)	(21.1)
Net interest and ARTC	1.63	9.0
Cash netback	4.41	24.3
Depletion and depreciation	(3.59)	(19.8)
Net income	0.82	4.5

General and Administrative Expense

Gross general and administrative expense, before capitalization, totalled $411,054 or $5.33 per BOE produced. After capitalizing $115,798 (28% of the total) to recognize a portion of the support costs incurred in managing exploration and development investment programs, the net general and administrative expense was $295,256, or $3.83 per BOE produced.

Net general and administrative costs are expected to decline by $1.00 per BOE produced in 1995 through the averaging effect of increased production.

Depletion and Depreciation

The charge for depletion and depreciation on production in fiscal 1994 was $276,500 or $3.59 per BOE produced. Granger anticipates that this rate will increase to $4.00 per BOE in 1995 because of the expected additional acquisition/on-stream cost of $5.00 per BOE for new reserves.

Income Taxes

Using tax expenses available from its investment activities, Granger was able to reduce its taxable income to nil in 1994. In accordance with the terms of its initial public offering, Granger will, on a best efforts basis, renounce a total of $3,712,000 of exploration and development expenditures to purchasers of its Class B shares before March 30, 1996. $2,200,000 of interim expenditures incurred to February 28, 1995 were renounced to Class B investors in March 1995, effective for the 1994 tax year.

Capital Expenditures

1994	$000's
Geological and geophysical	159
Drilling	1,334
Plant and facilities	689
Land and property acquisition	774
Property disposition	(157)
Capitalized overhead	116
Other	57
	2,972

Liquidity and Capital Resources

Granger had cash and short term deposits of $1,166,079, net working capital of $567,193 and unused bank lines of credit of $750,000 at year-end.

Based on current cash flow and capital investment estimates for 1995, bank debt at year-end will be approximately $850,000. This amount is within Granger's financial guideline of managing debt within 1.25 times one year forward estimated annual cash flow.

Hedging arrangements are utilized from time to time to control commodity price, currency and interest rate volatility, which assist in cash flow management.

Marketing Arrangements

Granger operates and markets the majority of its gas production to long term contracts with Atcor and Western Gas Marketing Limited. The Company sells its crude oil under standard 30-day sales arrangements to three purchasers. This arrangement provides a consistent pricing balance and has proved beneficial in maintaining production rates in the face of pipeline restrictions. At year-end the Company hedged approximately 30% of its net oil production for one year at a price equivalent to C$24.25 per barrel, Edmonton par price.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles and the financial and operating information presented throughout this annual report is consistent with that which is shown in the financial statements. The integrity of data in these financial statements is the responsibility of management and, to this end, management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce reliable accounting records.

External auditors have conducted an independent examination of corporate and accounting records in order to express their opinion on the financial statements for the periods from November 23, 1993 to November 30, 1994 and from June 23, 1993 to November 23, 1993. The Audit Committee has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements of Granger Energy Corp. which are contained in this annual report.

Murray D. Sears
President

Garry L. West
Vice President

January 25, 1995

To the Shareholders
Granger Energy Corp.

We have audited the consolidated balance sheets of Granger Energy Corp. as at November 30, 1994 and November 23, 1993 and the consolidated statements of income and retained earnings and cash flow for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 1994 and November 23, 1993 and the results of its operations and cash flow for the periods then ended in accordance with generally accepted accounting principles.

Collins Barrow

Chartered Accountants

Calgary, Alberta
January 25, 1995

Consolidated Balance Sheet

Granger Energy Corp.

	November 30, 1994	November 23, 1993
Assets		
Current assets		
Cash and short-term deposits	$ 1,166,079	$ 62,727
Accounts receivable and prepaid expenses	586,770	22,115
	1,752,849	84,842
Capital assets (note 4)	2,539,771	229,505
Incorporation costs, at cost	—	1,098
	$ 4,292,620	$ 315,445
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,185,656	$ 215,445
Shareholders' Equity		
Share capital (note 5)	3,043,638	100,000
Retained earnings	63,326	—
	3,106,964	100,000
	$ 4,292,620	$ 315,445

Approved on behalf of the Board

Director

Director

Granger Energy Corp.

	Period from November 23, 1993 to November 30,1994
Revenue	
Petroleum and natural gas revenues, net	$ 1,137,338
Interest and other income	135,442
	1,272,780
Expenses	
Production	621,636
General and administrative	295,256
Interest	16,062
Depletion and depreciation	276,500
	1,209,454
Income before income taxes	63,326
Income taxes (note 8)	—
Net income, being retained earnings, end of period	$ 63,326
Net income per share	$ 0.03

Consolidated Statement of Cash Flow

Granger Energy Corp.

	Period from November 23, 1993 to November 30,1994	Period from June 23, 1993 to November 23, 1993
Operating activities		
Net income	$ 63,326	$ —
Add item not affecting cash		
Depletion and depreciation	276,500	—
	339,826	—
Net change in non-cash working capital balances	235,966	(22,115)
Cash from operations available for investment	575,792	(22,115)
Investing activities		
Acquisition of subsidiary (note 3)	(816,000)	—
Acquisition of capital assets	(2,652,076)	(15,158)
Proceeds on disposal of capital assets	156,588	—
Net change in non-cash working capital balances	169,590	—
Cash used in investing activities	(3,141,898)	(15,158)
Financing activities		
Issuance of share capital	4,092,000	100,000
Share capital issuance costs	(422,542)	—
Cash provided by financing activities	3,669,458	100,000
Cash inflow	1,103,352	62,727
Cash and short-term deposits, beginning of period	62,727	—
Cash and short-term deposits, end of period	$ 1,166,079	$ 62,727

Granger Energy Corp.

November 30, 1994

1. Company activities

The Company was incorporated as 571320 Alberta Ltd. under the laws of Alberta by Articles of Incorporation dated June 23, 1993. On August 19, 1993, the Company filed Articles of Amendment to change its name to Granger Energy Corp. and commenced operations on November 23, 1993. The Company's activities are the exploration for and development of oil and gas properties in Canada.

2. Significant accounting policies

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary company.

(b) Exploration and development costs

The Company follows the full cost method of accounting whereby all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Costs capitalized are depleted and depreciated using the unit-of-production method based upon gross proven oil and gas reserves as determined by independent and Company engineers. For purposes of the calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes.

(c) Joint venture accounting

Substantially all of the Company's exploration and production activities are conducted jointly with others, and accordingly these accounts reflect only the Company's proportionate interest in these activities.

(d) Depreciation

Furniture, computer and office equipment are depreciated on the declining balance basis at rates ranging from 20% to 30% per annum.

(e) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company.

Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(f) Net income per share

Net income per share is calculated based on the weighted average number of Class A common shares outstanding during the period of 1,901,881. The exercise of stock options and warrants would not be materially dilutive.

3. Acquisition

Effective December 1, 1993, the Company acquired 100% of the issued and outstanding shares of 562693 Alberta Inc. This acquisition was accounted for using the purchase method.

The purchase price was allocated as follows:

Cash and short-term deposits	$ 81,463
Accounts receivable and prepaid expenses	141,179
Capital assets	879,157
Accounts payable and accrued liabilities	(285,799)
Total purchase price	$ 816,000

Consideration for the purchase consisted of:

Cash	$ 780,000
Granger Energy Corp. Class A shares (180,000 shares at $0.20/share)(note 5(b))	36,000
Total consideration	$ 816,000

4. Capital assets

	Cost	Accumulated Depletion and Depreciation	Net Book Value November 30, 1994	Net Book Value November 23, 1993
Petroleum and natural gas properties including exploration and development thereon	$ 1,898,994	$ 181,596	$ 1,717,398	$ 180,000
Lease and well equipment	855,531	78,845	776,686	45,000
Furniture, computer and office equipment	61,746	16,059	45,687	4,505
	$ 2,816,271	$ 276,500	$ 2,539,771	$ 229,505

During the period ended November 30, 1994, the Company capitalized $115,798 (1993 - $ nil) of a total of $411,054 (1993 - $ nil) in general and administrative expenses.

No provision has been made for future removal and site restoration costs because these costs are expected to be more than offset by recoveries of the related equipment.

Undeveloped acreage not subject to depletion amounts to $296,254 (1993 - $ nil).

5. Share capital

(a) Authorized

Unlimited number of Class A voting shares
Unlimited number of Class B non-voting shares
Unlimited number of preferred shares

(b) Issued

	November 30, 1994 Number	November 30, 1994 Stated Value	November 23, 1993 Number	November 23, 1993 Stated Value
Class A shares				
Balance, beginning of period	500,000	$ 100,000	—	$ —
Issued				
For cash	—	—	500,000	100,000
For cash pursuant to Founders Warrant agreements (note 5(c))	280,000	56,000	—	—
For cash pursuant to Agency Agreement (note 5(d))	1,440,000	288,000	—	—
Upon acquisition of subsidiary company (note 3)	180,000	36,000	—	—
Balance, end of period	2,400,000	480,000	500,000	100,000
Class B shares				
Balance, beginning of period	—	—	—	—
Issued for cash pursuant to Agency Agreement (note 5(d))	3,712,000	3,712,000	—	—
Reduction in respect of income tax deductions renounced to subscribers	—	(725,820)		
Balance, end of period	3,712,000	2,986,180	—	—
Less: Share capital issuance costs		(422,542)		—
		$ 3,043,638		$ 100,000

(c) The Company issued 280,000 warrants to founders of the Company pursuant to Founders Warrant agreements. These warrants entitled the holders to acquire one Class A share per warrant for $0.20 until the closing date of the public offering (March 11, 1994) (note 5(d)). During the year, 280,000 warrants were exercised.

(d) During the year, the Company entered into an Agency Agreement with Jennings Capital Inc. and Moss, Lawson & Co. Limited whereby the agents sold 4,000 units of the Company at a price of $1,000 per unit. Each unit consists of 360 Class A voting shares with a stated value of $72 ($0.20 per share) and 928 Class B non-voting shares with a stated value of $928 ($1.00 per share) and 50 warrants to purchase Class A shares. Each warrant entitles the holder thereof to acquire one Class A share for $1.25 until February 10, 1996. At November 30, 1994, no warrants had been exercised.

In accordance with the terms of the offering, and pursuant to certain provisions of the Income Tax Act (Canada), the Company intends to renounce, for income tax purposes, exploration and development expenditures incurred of $3,712,000 to holders of Class B shares. At November 30, 1994, no amounts had been renounced.

The Class B shares will be convertible, at the option of the Company, into Class A shares at any time after February 27, 1997 and before February 27, 1999. Any Class B shares that have not been converted on or before February 27, 1999 shall be deemed to be converted on that date. The fraction of a Class A share obtained upon conversion of each Class B share will be equal to $1 divided by the greater of $1 and the weighted average trading price of the Class A shares for any consecutive 30 trading days selected by the Company commencing not more than 45 days before the conversion date.

The Class B shares are also redeemable, at the option of the Company, at any time after January 2, 1997 and prior to June 30, 1997 at the fair market value of the Class B shares, provided that the current market value of Class A shares exceeds $1 per share.

(e) As at November 30, 1994, the Company has reserved 240,000 Class A shares under its incentive stock option plan, as follows:

Number	Exercise Price	Expiry Date
172,500	$1.00	May 21, 1995
67,500	$1.00	March 20, 1998
240,000		

(f) 702,000 Class A issued shares are held in escrow and may not be released from escrow and traded without the written consent of the Chief of Securities Administration of the Alberta Securities Commission.

(g) Subsequent to year-end, pursuant to a share issuer bid, the Company has reacquired 38,400 of its Class A shares, at an aggregate cost of $49,019.

6. Credit facility

The Company has a credit facility with its bank in the amount of $750,000 bearing interest at prime plus 1%. The Company has provided security for the credit facility by way of a general security agreement and a $5,000,000 fixed and floating charge debenture on all assets.

At November 30, 1994, the Company had not drawn any amounts on this credit facility.

7. Commitment

The Company has a rental lease commitment on office premises of approximately $2,200 per month until expiry on December 30, 1995.

8. Income taxes

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates to income before income taxes. Details of the changes are set out as follows:

	November 30, 1994
Effective Canadian income tax rate	44.34%
Computed "expected" income taxes	$ 28,079
Increase (decrease) in income taxes resulting from:	
Non-deductible crown payments, net of Alberta royalty tax credit	38,912
Resource allowance	(47,625)
Share capital issuance costs	(37,471)
Deferred tax debit not recognized	15,390
Other	2,715
Income taxes	$ —

9. Related party transactions

The Company has participation agreements in place with certain employees and consultants whereby they may participate, on substantially the same industry terms as the Company, for up to 5% of the Company's interest in new ventures. At November 30, 1994, $42,634 is owing to the Company under this participation plan.

Management and Officers

Murray D. Sears
President

Garry L. West
Vice President

Harley L. Winger
Secretary, Granger Energy Corp.
and Partner with the law firm,
Burstall Ward

Mary C. Blue
Assistant Secretary, Granger Energy Corp.
and Senior Vice President,
Jordan Petroleum Ltd.

Directors

I. Lorne Levorson
Levorson Resource Management Ltd.
Calgary, Alberta

Harold V. Pedersen
President
Jordan Petroleum Ltd.
Calgary, Alberta

Murray D. Sears
President
Calgary, Alberta

Garry L. West
Vice President
Calgary, Alberta

Head Office

#475, 441 - 5th Avenue S.W.
Calgary, Alberta
T2P 2V1

Phone: (403) 237-0083
Fax: (403) 237-0085

Auditors

Collins Barrow
Calgary, Alberta

Bankers

Alberta Treasury Branch
Calgary, Alberta

Solicitors

Burstall Ward
Calgary, Alberta

Exchange Listing

Alberta Stock Exchange
Stock Symbols GAS.A, GAS.WT.A

Registrar and Transfer Agent

The R-M Trust Company
Calgary and Toronto

Printed in Canada

Granger ENERGY CORP.

#475, 441 - 5th Avenue S.W.
Calgary, Alberta
T2P 2V1